



Auditor of Public Accounts
Adam H. Edelen

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Contact: Stephenie Steitzer
stephenie.steitzer@auditor.ky.gov
502.564.5841
513.289.7667

Edelen Releases Audit of Clinton County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Adam Edelen today released the audit of the sheriff's settlement – 2011 taxes for Clinton County Sheriff Ricky Riddle. State law requires the auditor to annually audit the accounts of each county sheriff. In compliance with this law, the auditor issues two sheriff's reports each year: one reporting on the audit of the sheriff's tax account and the other reporting on the audit of the fee account used to operate the office.

The audit found that the sheriff's financial statement fairly presents the taxes charged, credited and paid, for the period April 16, 2011 through April 16, 2012, in conformity with the modified cash basis of accounting.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

The Sheriff has a known deficit of \$3,966 from undeposited tax receipts in his tax Account. Based on available records, our audit determined there is a deficit of \$3,966 in the Sheriff's official tax account. This deficit resulted primarily from undeposited 2011 tax receipts. As collector of property taxes, the Sheriff assumes full responsibility for all tax collections and complete distribution of these collections to the proper taxing authority. In order to properly distribute 2011 tax collections, we recommend the Sheriff eliminate the deficit in the 2011 tax account with personal funds. On October 12, 2012, the Sheriff deposited personal funds of \$1,069 into the 2011 tax account, leaving \$2,897 due to the 2011 tax account. We further recommend the Sheriff, in the future, deposit daily collections intact and immediately reconcile deposits to collection reports in order to explain and correct deposit shortages timely.

Sheriff's response: The amount of \$2,896.53 was paid out of my personal account on 12-21-12 leaving a 0 balance.

The Sheriff did not deposit receipts of the office in a timely manner and did not reconcile deposits to the daily tax collection journal. During our test of daily receipts, we noted deposits were not made on a daily basis, were not made intact, and were not always reconciled to the daily tax collection journal. Auditor obtained copies of the deposit detail, which shows all checks that comprise the deposit and the amount of cash, from the bank for deposits selected for testing in order to compare to the daily tax collection journal report, which lists all taxpayers which paid their tax bill that day. When a taxpayer paid a bill, it was entered into the computer system, but the check may not be deposited in bank that day.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual require that deposits be made daily. Additionally, the practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft.

We recommend the Sheriff immediately implement controls over the deposit process to assure deposits are made daily and include all tax receipts accepted by the Sheriff's office for that day to comply with KRS 68.210. The deposit slip preparation process should have included steps to verify the accuracy of information included on deposit slips and that the deposit slip agreed with the daily tax collection journal. We further recommend they Sheriff reconcile the cash and/or check totals agree with deposit.

Sheriff's response: Changes have been made to the tax collection procedures.

The Sheriff should not transfer funds between accounts to pay liabilities. Due to a shortage in the tax account, the Sheriff transferred the balances in the 2009 and 2010 tax accounts to the 2011 tax account in an attempt to cover all outstanding liabilities. By year end, funds in the 2011 tax account were completely spent and the previous years' tax accounts were not properly settled. When a lack of control or oversight over record keeping exists, this type of situation is allowed to occur. The possible effects are shortages in various accounts, which may result in the inability to pay required amounts to taxing districts, vendors, etc. Also, the ability to properly budget for operations of the office becomes increasingly difficult. We recommend the Sheriff refrain from making loans between his official accounts, and pay back monies that are due to each account. Furthermore, we recommend the Sheriff immediately implement controls and oversight over his office so receipts are deposited in the appropriate account.

Sheriff's response: The small balance of the 2009 and 2010 accounts was transferred to the 2011 account in order to close the accounts because the bank was charging us monthly fees.

The Sheriff should not deposit fee receipts in his tax account. During our test of daily receipts, we noted fee account receipts for vehicle inspections were deposited into the 2011 tax account on three occasions totaling \$680. Of this amount, \$560 should have been deposited into the 2011 fee account. Since the 2011 fee audit has been completed, we will include these as 2012 fees, along with the \$120 which should have been deposited into the 2012 fee account. Additionally, since there were no surplus funds in the 2011 tax account, the fee account receipts noted above were most likely not recorded in the fee account receipts ledger. This would

indicate the fee checks deposited to the tax account were then used to cover undeposited 2011 tax receipts. Because the Sheriff lacked controls over the tax collection and deposit process in his office and he did not provide adequate oversight in these areas, this situation was allowed to occur. As in any office, the Sheriff is expected to deposit all monies paid to his office into the correct bank account and in a timely manner. We recommend the Sheriff avoid depositing fee receipts into his official tax account. We also recommend the Sheriff, after he has eliminated the known deficit in his 2011 tax account; transfer \$680 to his 2012 fee account.

Sheriff's response: We now have controls set in place and I take the deposits every day. The \$680 has been transferred to the fee account.

The Sheriff should not commingle public and private funds. During the review of deposits, auditor noted several personal checks and payroll checks were cashed from tax receipts. As an example, we found where the bookkeeper cashed a personal business check in the amount of \$1,875. The pay to the order of was left blank and the memo stated repairs and labor. Per the bookkeeper, she cashed the check to pay for services performed for her personal business since the bank was closed. The lack of effective internal controls over receipts led to the commingling of public and private funds which is prohibited by statute. Per KRS 64.850, "It shall be unlawful for any county official to deposit public funds with individual or private funds in any bank or other depository or for any such official to withdraw public funds for any purpose other than that for which they were received and deposited." The Sheriff should prohibit employees from cashing checks in the Sheriff's office. We recommend the Sheriff implement internal controls to prevent the commingling of public and private funds.

Sheriff's response: We will no longer accept paychecks, only checks made payable to the sheriff for the amount of taxes.

The Sheriff did not distribute interest earned on tax collections to the school district and his fee account. During the course of the audit, we noted that interest earned on the 2011 tax account was not distributed to the school district and the Sheriff's fee account. Based on our computations, we determined that \$94 is owed to the Clinton County School Board and \$85 is owed to the Sheriff's 2012 fee account. In accordance with KRS 134.140(3)(b) and KRS 134.300 the Sheriff is required to pay to the school districts by the tenth of each month, that part of the investment earnings for the month, which is attributable to the investment of school taxes. We recommend the Sheriff pay the amounts due, as noted above to the Clinton County School Board and his 2012 fee account. We further recommend that in the future, the Sheriff comply with KRS 134.140(3)(b) and KRS 134.300 by paying the amount of interest due to the school district in a timely manner.

Sheriff's response: has been paid.

The Sheriff's office lacks adequate segregation of duties over accounting functions. A lack of adequate segregation of duties exists over all accounting functions. During our review of internal controls, we noted the Sheriff's bookkeeper opens incoming mail, collects tax payments, prepares deposits, prepares daily tax collection journals, and prepares monthly tax reports.

A limited budget places restrictions on the number of employees the Sheriff can hire. When faced with a limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties.

Lack of oversight could result in misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department of Revenue and other taxing districts, which could occur but go undetected.

Additionally, because a lack of adequate segregation of duties existed and because the Sheriff did not provide strong oversight over the office, the following occurred:

- The Sheriff had a deficit of \$3,966 in his tax account (comment 2011-01)
- The Sheriff did not deposit receipts in a timely manner or reconcile deposits to the daily tax collection journal (comment 2011-02)
- The Sheriff transferred funds between accounts to pay liabilities (comment 2011-03)
- The Sheriff deposited fee money to tax account (comment 2011-04)
- The Sheriff commingled private and public funds (comment 2011-05)
- The Sheriff did not pay interest owed to the school (comment 2011-06)

A segregation of duties over various accounting functions, such as opening mail, collecting cash, preparing bank deposits, preparing monthly reports or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties involving the opening of mail, collecting and depositing of cash, and preparing the monthly tax reports. If, due to a limited number of staff, that is not feasible, strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could provide this oversight. If the Sheriff does implement compensating controls, these should be documented on the appropriate source documents.

Sheriff's response: We are short handed and doing the best we can with what we have.

The sheriff's responsibilities include collecting property taxes, providing law enforcement and performing services for the county fiscal court and courts of justice. The sheriff's office is funded through statutory commissions and fees collected in conjunction with these duties.

The audit report can be found on the [auditor's website](#).

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